BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NOS. 90-452-G, 91-011-G AND 91-563-G - ORDER NO. 91-1138

DECEMBER 20, 1991

IN RE: Hearing to Address the Continuation of the Industrial Sales Programs of Peoples Natural Gas Company, South Carolina Electric & Gas Company, and South Carolina Pipeline Corporation, Annual Review of the Purchased Gas Recovery Procedures and Gas Purchasing Policies of South Carolina Pipeline Corporation, Application for a Certificate of Public Convenience and Necessity Authorizing the Construction, Operation, and Maintenance of a Liquefied Natural Gas Satellite Facility in Orangeburg County, South Carolina.	ORDER

This matter is before the Public Service Commission of South Carolina (the Commission) on the issues presented in three consolidated Commission dockets.[1] Specifically, the issues raised by these dockets concern the continuation of the Industrial Gas Sales Program of South Carolina Pipeline Corporation (Pipeline or

1. By notice dated November 15, 1990, the Commission consolidated Dockets Nos. 90-452-G and 91-011-G for hearing purposes. By Order No. 91-888 (October 15, 1991), the Commission consolidated Docket No. 91-563-G with Docket Nos. 90-452-G and 91-011-G.

the Company),[2] a review of Pipeline's gas purchasing policies and purchased gas adjustment, and Pipeline's Application for a Certificate of Public Convenience and Necessity to construct and operate a liquefied natural gas satellite facility.

By letters dated July 5, 1990, November 15, 1990, and October 7, 1991, the Commission's Executive Director instructed Pipeline to publish a prepared Notice of Filing in newspapers of general circulation in the areas affected by the Company's service and Application. Additionally, Pipeline was instructed to notify each of its customers, by bill insert or otherwise, of its Notice of Filing. Pipeline submitted affidavits stating it had complied with the Executive Director's instructions. Petitions to Intervene were filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate), Southern Natural Gas Company (Southern), South Carolina Electric & Gas Company (SCE&G), the City of Orangeburg (Orangeburg), Nucor Steel, A Division of Nucor Corporation (Nucor), Chester County Natural Gas Authority (Chester), York County Natural Gas Authority (York), Lancaster County Natural Gas Authority (Lancaster), and Georgetown Steel Corporation (Georgetown). Georgetown later withdrew its Petition

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2. Docket No. 90-452-G addresses the continuation of the Industrial Sales Programs of Peoples Natural Gas Company (Peoples), South Carolina Electric and Gas Company (SCE&G), and Pipeline. By Order No. 91-384 (May 10, 1991) the Commission determined that SCE&G did not have the formal burden of establishing the reasonableness of its Industrial Sales Program because its program is contingent upon Pipeline's Industrial Sales Program.

Peoples' Industrial Sales Program is no longer reviewed by the Commission. Peoples was purchased by SCANA Corporation and its operations have been consolidated with SCE&G.

to Intervene.

A hearing was held in the Offices of the Commission on December 3, 1991. The Honorable Marjorie Amos-Frazier presided. At the hearing, Staff Counsel for the Commission entered into the record a Stipulation and Agreement dated December 3, 1991 and signed by all parties of record, including the Commission Staff. Hearing Exhibit #1. According to the Stipulation and Agreement, the parties agreed to make certain recommendations to the Commission and to urge the Commission to adopt their recommendations. In accordance with the agreement of the parties, Staff Counsel entered the pre-filed testimony[3] of James S. Stites, Chief of the Commission's Gas Department, into the record. Thereafter, the hearing was concluded.

After thorough consideration of the evidence submitted at the hearing and the applicable law, the Commission makes the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. Pipeline purchases its gas supplies from independent spot market suppliers for interruptible service, long-term firm service from independent gas suppliers, and firm service from Southern. After consideration of Pipeline's supply portfolio, market conditions, the needs of its firm customers, and the characteristics of its interruptible customers, Mr. Stites

3. Staff Counsel struck a portion of Mr. Stites' testimony from the sentence which began on page 9, line 17 to the first word on page 10, line 1.

testified that Pipeline has made "prudent decisions in purchasing its gas supplies to balance its customer profile and system requirements with existing supply options." Pre-filed testimony, p. 3. In addition, Mr. Stites testified that "[t]aking into consideration Pipeline's dedication to reliable supplies, it is my opinion that it has demonstrated its ability to purchase supplies for its customers at just and reasonable costs." Pre-filed testimony, p. 4.

2. Mr. Stites explained that Pipeline had recently entered into a five year contract for the purchase of gas supplies and that, under the terms of this contract, Pipeline was required to prepay each year's gas cost in one lump sum. Mr. Stites testified that Pipeline had requested that the Commission permit it to recover its first year's interest on its loan for the purchase of the "prepaid gas" through its Purchased Gas Adjustment (PGA) Clause and that it be able to price the gas to reflect the changing market prices of gas between summer and winter months. Mr. Stites testified that in order to allow Pipeline to take advantage of innovative supply options which can benefit its customers, this interest should be considered a part of Pipeline's overall gas cost. He testified, however, that the charge associated with the interest recovery should be added to every unit of gas sold since some gas is sold to customers who do not buy gas based on the PGA. Mr. Stites testified he did not foresee any problem with pricing the gas to reflect seasonal market conditions. Additionally, Mr. Stites testified that the recovery of the gas costs and interest

should be trued up on an annual basis.

3. Mr. Stites testified that Pipeline's Industrial Sales Program Rider (ISPR) should remain in effect to allow natural gas to compete with the alternate fuels used by industrial customers. Mr. Stites testified that he recommended a minimum level of lower cost gas be placed in Pipeline's weighted average cost of gas (WACOG) but that the actual mechanics of the WACOG and ISPR remain the same. Specifically, Mr. Stites testified that Pipeline should be required to introduce at a minimum 10,000 dekatherms per day of its prepaid gas into the WACOG. Further, Mr. Stites recommended that the WACOG reflect receipt of 3,650,000 dekatherms (10,000 dekatherms X 365 days) of the lowest cost gas entering Pipeline's system on an annual basis. Mr. Stites testified he selected these gas volumes to balance the interests of the firm customers and the industrial customers who purchase gas under the provisions of the ISPR. He explained that the objective of his recommendation was to ensure that firm customers receive a reasonable level of benefits from the lower cost gas entering Pipeline's system. Mr. Stites recommended that these volumes be used for one year and that, if good cause was demonstrated, the gas volumes could be adjusted.

4. According to the Stipulation and Agreement, all parties support the Commission Staff's proposal in regard to the ISPR and specifically agree that the ISPR should be maintained and that certain gas supplies, as described by Mr. Stites, should be dedicated to the WACOG for an approximately year-long trial period.

5. Mr. Stites recommended that the Commission grant

Pipeline's Application for a Certificate of Public Convenience and Necessity to construct and operate a satellite liquefied natural gas (LNG) peaking facility in Orangeburg County, South Carolina. Mr. Stites testified that due to uncertainty and changes in the operation of the traditional gas supply market, the LNG satellite facility would benefit service reliability. In addition, Mr. Stites testified the LNG plant should result in reduced gas costs to Pipeline's customers due to a reduction in demand charges.

6. Mr. Stites testified that since the present purpose of the LNG facility is to meet the needs of firm customers, the plant should be completely included in Pipeline's rate base assigned to its firm customers. Mr. Stites also testified that "if changes should occur in the future whereby the plant is being operated to benefit service to the interruptible customers then the assignment policy would be subject to change." Pre-filed testimony, p. 10.

7. With the exception of the Consumer Advocate, the parties stipulated that the need for the LNG facility is created by Pipeline's firm customers and, as it is intended to be operated, will benefit firm customers. Accordingly, except for the Consumer Advocate, the parties recommended that the cost associated with the LNG facility be assigned to Pipeline's firm customers. The parties, with the exception of the Consumer Advocate, agreed that, unless a substantial change in circumstances occurred, they would urge the Commission to accept this assignment of cost.

CONCLUSIONS OF LAW

1. The Commission concludes that, for the period under review in Docket No. 91-011-G, Pipeline's purchasing practices were prudent and its Purchase Gas Adjustment Clause and Industrial Sales Program should be continued with the following provisions:

A. At a minimum, 10,000 dekatherms per day of Pipeline's prepaid gas should be calculated into the WACOG.

B. The WACOG should reflect an infusion of an additional 10,000 dekatherms a day of Pipeline's lowest cost gas on an annual basis.

C. Pipeline shall place these volumes of gas in its WACOG as of the date of this Order.

D. The specific terms of this Order in regard to the ISPR shall remain in effect for an approximately year-long trial period. This trial period will be concluded after the next annual review of Pipeline's purchased gas recovery procedures and gas purchasing policies and after an Order from the Commission.

2. Pipeline may recover its first year's interest for the prepaid gas through its gas cost. Pipeline shall recover this interest through equal charges to every unit of gas sold. The gas costs and interest recovery shall be trued up to actual costs at the end of the annual period.

3. The Commission recognizes that the price of natural gas fluctuates, particularly from season to season. Accordingly, Pipeline is allowed to price its prepaid gas in line with the fluctuating seasonal prices.

4. The Commission concludes that, due to improvements in system reliability and reduced gas cost, public convenience and

necessity require the construction of the LNG facility proposed in Pipeline's Application. Accordingly, the Commission grants Pipeline's Application for a Certificate of Public Convenience and Necessity pursuant to 26 S.C. Regs.103-404(A) (1976). Pipeline shall file quarterly reports with the Commission demonstrating the construction status of the facility.

5. As it is intended to be operated and unless a substantial change in circumstances occurs, the Commission concludes that the need for the LNG facility is created by Pipeline's firm customers and that the firm customers will benefit from the facility. Accordingly, the Commission finds that the costs associated with the LNG facility should be borne by Pipeline's firm customers and should be assigned to the firm customer's rate base. The Commission specifically recognizes that the Consumer Advocate has not agreed to the provisions of the parties' Stipulation and Agreement regarding the assignment of the cost of the LNG facility.

6. The Commission adopts the remaining provisions of the parties Stipulation and Agreement which do not conflict with this Order.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Chairman

ATTEST:

Deputy Executive Director

(SEAL)